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RAILWAY ASSESSMENT AND TAXATION

IN THE

PROVINCE OF ONTARIO.

SUPPLEMENTAL MEMORANDUM BY MESSRS.
HELLMUTH & MACMURCHY,
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RAILWAY ASSESSMENT AND TAXATION IN THE PROVINCE OF ONTARIO.

SUPPLEMENTAL MEMORANDUM BY MESSRS. HELLMUTH AND MacMURCHY.

On the 12th of December last a Memorandum, on behalf of the Railways, setting forth some of the figures and arguments presented to the Special Committee of the Legislature on the 2nd, 3rd and 4th December, 1903, was prepared and published.

Since that date Mr. Pettypiece, the chief exponent of increased railway taxation, has delivered a number of speeches upon the subject, including one from his place as a Member of the Ontario Legislature.

It is somewhat of a tribute to the accuracy of the Memorandum of the 12th of December last, that in no instance has Mr. Pettypiece challenged the truth or correctness of a single fact or figure set out in this Memorandum; indeed, he has scarcely attempted to combat or come to close quarters with the arguments and conclusions therein advanced. The authors of the Memorandum fully appreciate what this means, for there is no question as to the wish and ability of Mr. Pettypiece to show they were in error if such had been the case.

It is, however, a little disappointing that Mr. Pettypiece has not seen fit to admit the inaccuracy of his own article

in the Canadian Magazine for February, 1903, and to have confessed that the foundation there given for his statement as to the ability of Canadian railways to pay increased taxation was entirely erroneous and non-existent, since it must now be admitted the net earnings per mile in the United States and in Canada are not, as he has put it, in favor of the Canadian roads, but on the contrary the fact is the net earnings of the United States railways are $4\frac{1}{3}$ times greater than the net earnings of the Canadian railways, and that, too, after the United States railways have paid the large sums in taxes which Mr. Pettypiece is so fond of quoting.

In these recent speeches of Mr. Pettypiece, however, there are again statements put forward of alleged facts, which are inaccurate and misleading, and some of these it may not be out of place to point out and refute.

To take this gentleman's pet subject, viz., the St. Clair tunnel, Mr. Pettypiece states that on the 1st of July, 1903, that tunnel paid taxes to the amount of \$30,000; that out of this \$30,000, \$29,400 was paid in Michigan, and \$600 in the Province of Ontario.

These figures are absolutely incorrect. No such sum as \$29,400 was paid in Michigan. It is true an attempt was made to impose a tax of about \$25,000, but this was resisted by the Grand Trunk Railway Company, who declined to be mulcted in any such figure, and who paid under protest a sum of \$5,235.98.

It is a fact that \$675 was paid by the Grand Trunk to the town of Sarnia, this sum covering amongst other things the taxes of the Ontario half of the tunnel, but this sum was not levied or paid as taxes are in the ordinary way, but was the result of an agreement between the Grand Trunk and the corporation of the town of Sarnia; an agreement which included not only this matter but the building and operation of certain works of the Grand Trunk in and near the town of Sarnia, in consideration of which and other matters a fixed assessment was arrived at between the parties for 20 years, which agreement both the Grand Trunk Railway Company and the town of Sarnia requested the Legislature of Ontario to confirm, and an Act—61 Vic., Cap. 52 (1898)—was passed upon the petition of the town of Sarnia and the Grand Trunk Railway Company confirming and validating this mutual agreement. Has Mr. Pettypiece stated these facts in his numerous addresses? Has he told the various bodies before whom he has spoken that by mutual agreement, for valuable consideration, the town of Sarnia and the Grand Trunk Railway Company have for 20 years fixed the

assessment of the tunnel and other property in the town of Sarnia? Or has he not thought it necessary to state the fact that the tunnel at Sarnia is not assessed according to the existing laws of the Province of Ontario, but is assessed according to mutual agreement between the parties interested?

Again Mr. Pettypiece says:—

“The last report of the Grand Trunk Railway Company will shew you that they transferred from the earnings in Canada \$80,000 to meet their responsibilities in the Grand Haven and Milwaukee Branch in Michigan, and curiously enough the taxation on that branch is exactly the amount they transferred from the earnings here over to that State, so that as a matter of fact the earnings here of the Grand Trunk paid taxes in the State of Michigan to the amount of \$80,000.”

It is true that the Grand Trunk transferred or paid last year \$80,000 to the Grand Haven and Milwaukee branch in Michigan. This was paid under an agreement, by which the Grand Trunk Railway Company of Canada were, if the earnings of the Grand Haven and Milwaukee Company were insufficient to meet its bonded interest indebtedness and other liabilities, pledged to make same good, while if there were any surplus profits the Grand Trunk were to receive same, but the amount of taxes paid by the Grand Haven and Milwaukee branch in Michigan was not \$80,000, but \$25,171, while the amount claimed under the law, which is being contested, was \$99,710. A rather startling inaccuracy for one so familiar as Mr.

Pettypiece is, or ought to be, with figures pertaining to railways.

Again Mr. Pettypiece says:—

"If you look at the reports of the two great railway Corporations, you will find during the past few years their earnings, as compared with working expenses, are as good and as favorable as are the average railroads of the United States. Probably if you pick up some exceptional roads, like Mr. Hellmuth and Mr. MacMurchy would do, a line like the New York Central passing through that populous country, you will find their earnings compared with expenses are better than here."

The first inaccuracy that may be pointed out in the above is that Mr. Hellmuth and Mr. MacMurchy have never taken the New York Central as a subject for comparison with the G.T.R. or C.P.R., and, of course, Mr. Pettypiece is quite aware of this, but the man of straw had to be set up or he could not be knocked down—but this by the way only.

The main statement, however, that the earnings of the Grand Trunk and C.P.R., for it may be assumed these are the two great railway Corporations he refers to, are as good and as favorable as are the earnings of the average railroads in the United States, is to put it mildly, outside the facts and misleading.

The average earnings over operating expenses of the United States railways in 1902 was \$4,029 per mile, the average earnings of all the Canadian railways over operating expenses in 1902 was \$1,395 per mile, and the

average of the G.T.R. and the C.P.R. about \$2,000 per mile, that is, these average earnings of the United states roads are three times greater than the same average earnings of all the Canadian roads and twice as great as the average of the earnings of the G.T.R. and C.P.R. This was clearly set out in the former Memorandum, which has been in Mr. Pettypiece's hands for nearly three months, and it was further shewn that the net average income, after paying bonded indebtedness, etc., of the United States roads, was in 1902 \$1,400, and of the Canadian roads \$325.

Again Mr. Pettypiece says:—

"An attempt has been made to mislead our people by statements as to comparative density of population here and in the United States. The statements made in comparing Michigan and Ontario are wholly unfair, because the unsettled portions of Ontario are taken into the calculation. In the settled parts of Ontario population to the square mile is greater than it is in Michigan."

It is quite true that the unsettled portions of Ontario are taken into the calculation, but Mr. Pettypiece omitted to mention that the unsettled portions of Michigan were also taken into calculation, and that in the Memorandum of the 12th of December last the whole of the State of Michigan, settled and unsettled, was compared with the whole of the Province of Ontario, settled and unsettled, and that the density of population for the whole Province of Ontario was shewn

to be 10 to the square mile, while the density of population for the whole of the State of Michigan was shewn to be 42.2 to the square mile. *What, therefore, could be fairer or less misleading?* But Mr. Pettypiece apparently only desires a one-sided comparison which will suit the purpose for which he is contending, and he would willingly take the settled and unsettled portions of Michigan, but when he comes to Ontario he would leave out its unsettled portions running for hundreds of miles on the other side of the Great Lakes opposite the unsettled portions of Michigan, already taken into account. Is this fair argument? Is it entitled to respect?

Again, Mr. Pettypiece says:

"The Michigan Central pays taxes at the rate of \$1,100 per mile in Michigan, and \$50 in Ontario, and yet all its refreshment rooms are in Detroit."

The statement that the Michigan Central, or rather the Canada Southern, pays about \$50 per mile in municipal taxes in Ontario is not far from correct, *but the other two statements are not true.* One of the largest refreshment rooms of the Michigan Central is at St. Thomas; it is thoroughly up to date, and well equipped in every particular.

The taxes paid by the Michigan Central last year were at the rate of \$425.68 per mile in Michigan, *not \$1,100*, while the taxes demanded, but payment of which was refused and is now being contested in the courts, was at the rate of \$658.61 per mile, *not \$1,100*.

It may be mentioned that a considerable proportion of this sum of \$425.68 per mile was paid by reason of the high value of the right of way in Detroit and other cities in Michigan, and the costly stations and terminals at these points; there being in Canada, on the line of the Canada Southern, only three cities—Windsor, St. Thomas and Niagara Falls, all comparatively small, so that no comparison can be made between the value of stations and terminals at these points and in Detroit and other cities in Michigan.

It is to be noted, however, in regard to taxation in the State of Michigan, that the assessment and taxation of the property of railways has been in the Courts since 1900. An appraisal was made of the railway property by experts, Professors Cooley, Adams and others, assisted by a corps of 75 engineers, occupying a period from September, 1900, to June, 1901, at an expense of over \$200,000. This was known as the Michigan Railroad appraisal, and was admittedly made on the basis of the then cash value of the property. It was found, however, by the Board of State Tax Commissioners that while railroad property was thus assessed at 100 per cent. of its value, other property in the State was only assessed at about 60 per cent., and the Commissioners, recognizing the injustice done to the railways thereby, reduced the rate of taxation below the average rate, in order to compensate. This was declared unconstitutional by the courts, and the matter has now been carried

to the highest court in the State, and will no doubt ultimately reach the Supreme Court in the United States. In the meantime the railways are paying taxes according to the law formerly in force in Michigan, *and the method of assessment and taxation quoted by Mr. Pettypiece is merely a paper one, and has not been accepted by any of the Railway Companies or enforced against them.*

Further, Mr. Pettypiece states the population of Indianapolis to be 120,000, but a conservative estimate is about 200,000, the census of 1900 showing 169,000.

Mr. Pettypiece states the rate of taxation per mile in that city varies from \$20,000 to \$1,200,000. This statement is wholly misleading. With the exception of the Indianapolis Union Railway, which is a system wholly unique, the assessed values of the different railways are all below \$45,000 per mile. The Indianapolis Union Railway is composed of ninety-two hundredths of a mile of track, over which every passenger train entering the city must pass; it is the only terminal common to all roads, and practically the only terminal in the city. There was paid on this ninety-two hundredths of a mile, including the station thereon, valued at \$500,000, taxes to the extent of \$26,427.20, while on fourteen miles of leased line, the Belt Railroad, the Indianapolis Union Railway paid taxes to the extent of \$13,839, a total of \$40,266.20, but

this sum not on less than one mile, but on some fifteen miles.

These figures are from the official returns.

And lastly, Mr. Pettypiece says:—

“Now, a word as to ‘ability to pay.’ The railways of all Canada earned \$26,000,000 in 1902, over and above operating expenses. It is true, as Mr. Hellmuth says, railways are taxed in rural Municipalities at the rate of 75c. per acre for their right of way, but he forgot to add that each acre gave net earnings of \$300 a year, or ten times as much as the net earnings of the best farms.”

Evidently Mr. Pettypiece still thinks ability to pay has something to do with the imposition of taxes, but, if so, why does he not state the situation accurately? For while the railways of all Canada earned some \$26,322,911 in 1902 over and above operating expenses, they had to pay interest on their bonded indebtedness amounting to \$20,240,242, so that their net earnings, which, of course, are the test, were only \$6,082,669, a fact pointed out in the previous Memorandum and well known to Mr. Pettypiece.

Again, in the above quotation, Mr. Pettypiece says:—

“Each acre gave net earnings of \$300 a year.”

Mr. Pettypiece knows, or ought to know, that each *mile* of railway gave net earnings of \$325 a year, and that each mile of railway consists *not of one but of eight acres*, so that each acre did not give net earnings of \$300 a

year, but net earnings of \$40.62 a year.

And if each railway acre in the rural Municipalities paid, as Mr. Pettypiece admits it did, 75c. taxes, and earned not indeed ten times, but considerably less than twice as much as the best farms, was it not paying its fair share of taxes, when the average taxes of farm lands in the Townships in Ontario are only 19c. per acre, or one-fourth of what the railway acre pays?

A statement of these undoubted facts, however, would not only destroy the whole argument for increased municipal railway taxation, but would prove conclusively that a fair share of taxation is being paid by the railways in

the townships, and consequently we have the illustration of the one acre giving net earnings of \$300, when in fact it takes eight acres to give net earnings of \$325 a year.

These instances by no means exhaust the inaccuracies and incorrect facts and figures published broadcast by Mr. Pettypiece, but they ought to be sufficient to show that he can hardly claim to be considered a reliable authority on the subject, and that any future statements from this source will require verification before acceptance.

I. F. HELLMUTH,
ANGUS MACMURCHY.

March 14th, 1904.

